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NATIONAL-FOREST CONTRIBUTIONS TO LOCAL GOVERNMENT

Report of the Forest Service
U. S. Department of Agriculture
February 10, 1937

The Problem

The Forest Service is confronted with the question of what may be done to make the fiscal relations between the Federal and local governments in the national-forest districts more satisfactory.

The importance of the problem is indicated by the fact that the area of national forests, as of June 30, 1936, approximates 166 million acres. The larger part of this area, including almost all of that portion which lies west of the Great Plains, has been made up from the public domain. Seven and one-half million acres have been obtained by purchase, practically all east of the Great Plains. A relatively small area has been acquired by exchange, chiefly for national-forest timber, and by donation. An additional 3 million acres have been acquired in purchase areas as yet outside of national-forest boundaries, and nearly 5 million acres more have been approved for purchase but not yet acquired. The ultimate objective of the Forest Service as expressed in recommendations contained in the Copeland Report of 1933 (Senate Document No. 12, 73d Congress, 1st Session) and in the Natural Resources Board Report (Part II) of 1934, involves a greatly expanded program of acquisition looking toward a total area in national forests approaching 300 million acres.

The attached map portrays the present location of the national forests. While they are much more extensive in the Western States, there is a substantial area in the East. Altogether, they are located in 33 States and also in Alaska and Puerto Rico. About 500 counties and very many more local taxing districts are affected by their presence.

Because of the tax-exempt status of the national forests, local governments now receive money payments amounting to 25 percent of the gross receipts of these properties. They also benefit directly and extensively by the national forests through Federal road construction, fire protection, law enforcement, and the like. They benefit indirectly but very substantially through stabilization of local industries dependent on the forests and through recreational and other developments. The 25-percent contribution has, however, been attacked as unsatisfactory from time to time for many years, and has recently met with increasing criticism.

The complaints which reach the Forest Service may be segregated into two classes, (1) those which regard the Federal contributions to local government as inadequate chiefly from the standpoint of helping meet current expenses and (2) those which stress the need for Federal aid in meeting local public debts which are out of proportion to the taxpaying ability of the remaining private property in the districts which incurred them.

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The first class of complaints, which concern adequacy of provisions for current expenses, may result from sharp fluctuations in receipts, from consistently meager revenues, or from inequitable apportionment among counties of the local share of receipts. They have no particular relation to the origin of the national forests involved, whether created from the public domain or acquired by purchase, exchange, or donation.

The second class of complaints, concerning acute debt situations, are encountered for the most part in districts containing acquired rather than public-domain national forests. Federal purchases have in some localities removed from the tax base a high proportion of the property which had been expected to provide taxes for liquidating the debt--though actually much of it may have been denuded of timber and other resources since the debts were incurred and tax delinquent for years.

The purpose of the study here summarized is to appraise the existing situation and formulate remedies for any real maladjustments caused by the presence of national forests. The need is for a method of determining and distributing a monetary contribution to local government that will be fair, considering other local benefits from the national forests, and as stable as possible.

Factual Considerations

A considerable volume of information was collected in previous taxation investigations and through contact of the administrative officers of the Forest Service with the local public. To supplement this information, 30 counties, all containing national forests, have been studied intensively during the past year. These counties were selected as representative of a broad range of diversified conditions, some being included because they appeared to be in the "problem" category with respect to current fiscal status. They are located in most of the important forest regions of the United States.

The studies conducted in the selected counties show wide divergence with respect to virtually all the factors which bear on the relationships of the national forests to the governmental units in which they are situated. These counties range from sound financial status to partial bankruptcy. Their financial condition was generally found to be dependent only to a minor degree on the fiscal relationship between the county and the national forest.

In general, the western counties containing national forests created from the public domain are large and wealthy enough to constitute reasonably efficient units. The national-forest lands never were on the tax rolls and the county finances are adjusted to the existing conditions. The financial condition of these counties is on the whole satisfactory. Although county officials generally offered no criticism of the present aggregate amount of national-forest contributions to local government, they frequently expressed the wish that the returns from the 25-percent fund might be more stable and dependable from year to year.

Conditions are much different in the eastern counties containing acquired national forests. The lands acquired were formerly productive and taxpaying in private ownership. During recent years, however, their economic productivity and that of other lands in the same counties had progressively declined and often widespread tax delinquency has occurred. The weak financial condition of many of the eastern national-forest counties is due fundamentally to local economic retrogression. Only a small portion of the total decline in the property tax base of the typical acquired-forest county is attributable to Federal purchases; but such purchases have contributed in a much larger degree to the fiscal difficulties of some of their subdivisions. Similar local difficulties may occur in some of the western counties as additional lands are acquired.

Conclusions

It is evident, then, that the immediate need in the counties containing chiefly public-domain forests could be met by providing for stabilization and better distribution of the Federal contributions on account of national forests without any great change in their aggregate amount. More flexibility in the use of contributions should be permitted by eliminating the present restriction to school and road purposes. The State legislatures should be free to determine how contributions should be spent within the national-forest counties. Here it is largely a question of providing for current expenses of local government in a manner which will not require the local taxpayer to be unduly burdened by the presence of national forests.

It is also clear from the local studies that there is an immediate need in most of the counties containing chiefly acquired national forests for more revenue. Any sharing of national-forest receipts with such counties will generally afford negligible contributions. Here are not only the usual requirements of local government, but also special difficulties brought about by local debt situations. Federal purchases have removed over 75 percent of the property tax base of a number of towns or local school districts in counties in Alabama, Minnesota, Mississippi, New Hampshire, Texas, and Wisconsin, some of which have substantial debt burdens. The responsibility of the Federal Government for clearing up these situations is only secondary, both because Federal purchases have been only a secondary cause, and because the necessary adjustments in local government, in outstanding debts and the like, can only be accomplished through exercise of State authority. The problems could be met in part by more adequate Federal contributions and in part by larger State grants, accompanied in many cases by dissolution of the affected districts and their assimilation into larger administrative units.

The responsibility of the States in connection with this general problem should not be overlooked. The local governments concerned are their creatures. The national-forest enterprise relieves the States of troublesome and expensive problems. In many cases, it involves purchase of their denuded lands, many of which were paying no taxes, and the financially heavy task of restoring them to productivity. It tends to

stabilize their forest industries. It provides substantial services through road building and other activities. National forests are acquired only in States which have given formal consent by legislative action. It seems reasonable to conclude, therefore, that where local units of government containing national forests are in financial difficulties, the task of assisting them is a responsibility of the State as well as of the Federal Government.

To the extent that the Federal Government may be responsible for the financial difficulties of local governments containing national forests, whether these difficulties involve current expenses or debt obligations, it is clear that such responsibility would be fully discharged if it were to submit the national forests to local taxation on the same basis as private property. In such case, equity would demand that the value of services not required of private owners which are rendered by the Federal Government in connection with the national-forest system be credited against the taxes levied. The practical difficulties preclude a solution along this line. Instead, it would seem more advantageous to adopt a fair basis for contributions that would be uniform in all States.

Because of the diversity of conditions, it is difficult to determine precisely a uniform measure of the obligation of the national forest to contribute to the financial support of local government. It is clear that in view of the special benefits rendered, such contributions should be much less than average taxes in rural regions on properties of the same value. They probably should not exceed 0.5 percent of actual value. This rate is about one-third of the average rural property tax rate adjusted to represent a portion of actual rather than of assessed value. So far as the public-domain forests are concerned the contributions also should not exceed 25 percent of gross receipts, since the aggregate amount under such a provision has been found to be reasonably satisfactory. Accordingly, if the existing 25 percent contribution is retained, it should be modified by establishing an upper limit of 0.5 percent of value and supplemented by special assistance in connection with acquired lands. An alternative plan would be to adopt 0.5 percent of value as the standard contribution rate but restrict its application to public-domain national forests by applying a limitation to approximately 25 percent of gross receipts. These principles have been embodied in two plans, the gross-receipts plan and the property-value plan. They are summarized here as follows:

Gross-Receipts Plan

This plan is the existing 25-percent method so modified as to overcome its more serious difficulties. It involves a limitation effective with greatly increased utilization of timber resources, contributions supplemented by special temporary aid to counties because of acquired lands, and improvement in stabilization and distribution.

The following method of stabilizing the 25-percent contribution is proposed: Segregate the receipts from each national forest by,

(1) timber sales, (2) miscellaneous (grazing, special use, etc.). Determine annually the total receipts from timber sales by States. Pay to each State after the close of each Federal fiscal year 25 percent of the average timber sale receipts from that State for the last five fiscal years, the payment to be known as the timber 25-percent fund. In any State this fund should be limited to 0.5 percent of the timber value of the national forests. In addition, pay to each State 25 percent of the average of all other receipts of the national forests for the last five fiscal years, the payment to be known as the miscellaneous 25-percent fund.

It is proposed that the State should distribute these two funds as follows: (1) Divide the timber 25-percent fund by the total timber value of the national forests, thus determining for the State a timber contribution rate per dollar of national-forest timber value. Pay to each county the product obtained by multiplying the timber value of the national forests in that county by the State contribution rate. (2) Distribute the miscellaneous 25-percent fund to the counties of origin, the amount due each county being 25 percent of the average miscellaneous receipts for the last five fiscal years from that county.

The five-year average base mentioned in the preceding paragraphs should be built up gradually over a five-year period thus avoiding the inclusion of recent depression years.

The reason for segregating national-forest receipts into two funds is that when each county is considered separately timber sales receipts are much more variable than miscellaneous receipts. Timber sale receipts, in contrast to the miscellaneous, are based on utilization which is far from constant by counties because it is ordinarily regulated by much larger areas the boundaries of which do not coincide with county lines. In the case of contributions based on timber sale receipts, stabilization and equitable distribution among the counties could therefore be accomplished only by some such method as that proposed. The simpler procedure which has been suggested would accomplish these objectives in respect to contributions based on miscellaneous receipts. It would also avoid the necessity of appraising any but timber value.

In order to aid in meeting the special problems of local governmental finance in counties where national-forest acquisitions are made, it is proposed that a special contribution be added. This contribution would be 0.6 percent (approximate minimum property tax rate on actual value in rural districts) of an adjusted cost of national-forest lands acquired in the preceding ten years in that county.

The adjusted cost of acquired lands would be determined annually after the close of the fiscal year for the last preceding ten years, the cost incurred in each fiscal year to be adjusted through reduction by 1/10 for each full year elapsed since the close of that fiscal year. Such cost should include only the considerations paid for purchased lands, together with the value at date of acquisition of lands obtained by exchange and donation. The calculation of adjusted cost could be greatly simplified in any year after the first year's detailed computation by merely taking the

aggregate adjusted cost as determined for the preceding year, subtracting 1/10 of the aggregate unadjusted cost of acquisitions during the 10 fiscal years prior to the last fiscal year, and adding the cost of lands acquired during the last fiscal year. In ten years the total contribution in respect to each acquisition would accumulate to 3.3 percent of the full cost not considering interest.

All payments under this plan should be made by the Federal Treasury direct to the States. The amounts due the counties should be determined and ear-marked for distribution by the Secretary of Agriculture. The timber value of the national forests (determined by counties) should be defined as the fair value of national-forest lands which are capable of growing commercial timber, excluding all elements of value other than timber and timber growing capacity. Areas, the timber on which is reserved from cutting to serve higher public purposes should be excluded.

The 25-percent fund in 1936 totaled approximately $977,000. Under the gross-receipts plan the total contributions for the same year would be $1,138,000. In 1937, the cost under this plan would be about $165,000 more than under the present law.

Property-Value Plan

This plan contemplates that ultimately national-forest contributions should be based on property value, and become similar to property taxes levied at a low and uniform rate. In other words, the contributions would be 0.5 percent of the value of national-forest lands as appraised by the Secretary of Agriculture.

In the case of lands acquired by purchase, exchange, and donation, the above basis for contributions would be fully applicable from the start. In the case of national forests created from the public domain, the application of this basis would be approached gradually through an adjustment designed to prevent the contributions from taking an unreasonable share of gross receipts.

The appraisal of national-forest lands would be made annually by counties, public domain separately from acquired lands. All lands would be appraised at fair value including timber and forage but excluding waterpower and improvements. The Secretary of Agriculture should have authority in making these appraisals to take account of the extent to which national-forest receipts are reduced through free use of national-forest lands and resources, through their use at less than commercial charges, or through reservations from commercial utilization to serve higher public purposes.

The appraised value of the public-domain lands would be subject to adjustment on the basis of comparison with gross income in any State where the appraised value of all the national-forest lands exceeded the product obtained by multiplying by 50 the average gross annual receipts of all the national forests in that State for the last preceding 5 fiscal years. This adjustment would be made by multiplying the appraised value of the public-domain national-forest lands in each county of the State by the

ratio of the above-mentioned product to the total appraised value of all national-forest lands in the State. This adjusted value would be the contribution base in respect to the public-domain national-forest lands in the county. As previously stated no corresponding adjustment would be made in the appraised value of acquired lands. The total adjusted value of public-domain lands, plus the appraised value of acquired lands in any county, would be the contribution base in that county.

The above adjustment is exactly equivalent to limiting the contribution base for public-domain forests to 50 times the average annual gross receipts from those forests in States where all national forests fall in that category. The reason for the choice of 50 as a multiplier is apparent if one notes that 0.5 percent of 50 times gross receipts is the same as 25 percent of gross receipts, since .005 x 50 = .25. Accordingly, this adjustment would limit the contributions in respect to public-domain national forests in a State containing only such forests to exactly 25 percent of gross receipts. A limitation to precisely this portion of receipts would not be likely to occur in States containing both public-domain and acquired forests because the two categories would generally have different ratios of gross receipts to value, but the discrepancy would not be serious. The 5-year average in the above described adjustment formula should be built up gradually beginning in the current year.

The amount of the total Federal contributions to States having public-domain national forests only would for a long time remain the same under this plan as under the existing arrangement except for the effect of using the 5-year average in the adjustment formula. Whenever 50 times gross receipts in any State exceeded the value of national forests in that State, there would be a saving to the Federal Government.

This plan would involve an additional cost over the existing arrangement in any State containing acquired lands so long as 50 times gross receipts for that State were less than the value of national forests.

As stated before, the 25-percent fund in 1936 totaled approximately $977,000. Under this proposed plan, the total contributions for the same year would be $1,140,000. In 1937, the cost under this plan would be about $170,000 more than under the present law.

Recommendations

The practical effects of the two plans which have been suggested are not so different as would appear on the surface. Both are in general accord with the conclusions of this study as to the amounts which the Federal Government should contribute to local government on account of the national forests. Both plans would reduce contributions below what they would be under the existing arrangement in localities where utilization of timber resources is especially active, and increase them where such utilization is still undeveloped. Both provide more substantial aid to counties containing acquired lands than the present law, the gross-receipts plan through extra payments of a temporary character added to the contributions based on receipts, and the property-value plan through a permanent arrangement for payment of contributions based on full value.

The cost to the Federal Government of the two plans would be about the same in the immediate future. Later the cost under the property-value plan would be somewhat larger because of the more favorable treatment of counties containing acquired lands held by the government for more than 10 years. Ultimately, if the national forests become fully productive, with grazing and miscellaneous privileges charged for at full commercial rates, the cost under the gross-receipts plan would be greater than under the property-value plan, since the gross-receipts plan involves a limitation to 0.5 percent of timber value applicable to timber sale receipts only, thus giving the counties under all conditions a full 25 percent of other receipts. However, if this situation should actually occur at some time in the future, it would then be in order to consider the extension of a corresponding limitation to other receipts, although such action would obviously detract from the simplicity of the plan.

As between the two plans, the advantages of the gross-receipts plan are briefly as follows:

(1) It calls for the least departure from the existing method consistent with overcoming existing difficulties.

(2) The appraisal of national-forest lands, required in connection with both plans, is here greatly simplified by the elimination of all elements contributing to value except timber and timber-growing capacity. There are real difficulties involved in valuing some other classes of national-forest land.

(3) A share of grazing and other receipts than from timber sales is returned to the counties where these receipts originate, stabilized through use of 5-year averages.

(4) Except in the case of acquired lands, the plan relates the contributions directly to the revenues.

The advantages of the property-value plan are similarly summarized:

(1) The contributions rate is uniform for all national-forest lands, and the base to which it is applied will also be determined in a uniform manner when the national forests become more fully productive, for then the adjustments in the case of national forests created from the public domain become inoperative.

(2) Coordination with the local property tax is as close as practicable.

(3) The method is adaptable to cover other classes of Federal property.

On the whole, it is believed that the gross-receipts plan is the more appropriate method of solving the problem of contributions relating to national forests. Considering only the national-forest point of view, its enactment is recommended.

The property-value plan is believed to be better adapted for extension to Federal real estate generally, since most other Federal real estate does not produce direct revenue. In case it should be desired to enact legislation providing for a uniform method of contributions in respect to Federal real estate generally, it is recommended that consideration be given to the property-value plan as an alternative method.

Bills are attached which embody both plans as applied to the national forests.

A B I L L

To establish a new basis for determining the annual contributions to be made by the United States to the various States in which national-forest lands are located, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That when used in this Act--

(a) The term "State" includes Alaska and Puerto Rico.

(b) The term "county" includes districts which may be established by the States to administer functions of local government in place of counties.

(c) The term "timber" includes all products of forest trees.

(d) The term "gross receipts" means in 1937, gross receipts of the fiscal year 1937; in 1938, average annual gross receipts of the fiscal years 1937 and 1938; in 1939, average annual gross receipts of the fiscal years 1937, 1938, and 1939; in 1940, average annual gross receipts of the fiscal years 1937, 1938, 1939, and 1940; and 1941 and thereafter, the average annual gross receipts of the last preceding five fiscal years.

SEC. 2. That hereafter the Secretary of the Treasury as soon as practicable after the close of each fiscal year, shall pay to the States in which national-forest lands are located the following sums in respect to said lands to be distributed to the counties as hereinafter provided and to be used in support of local governmental functions as their respective State legislatures may direct:

(a) 25 percent of the gross receipts from sales of timber from the national forests, the same to be apportioned among the counties on the basis of the fair value at the close of the last fiscal year of the national-forest land located in each county which is capable of producing commercial timber, as determined by the Secretary of Agriculture. In determinating such fair value no account shall be taken of values other than of timber and timber growing capacity nor shall account be taken of areas the timber on which is reserved from sale to serve higher public purposes; Provided, That the payment hereunder to any State shall not exceed in any year one-half of one percent of the aggregate value of said national-forest land in said State, determined as herein provided;

(b) 25 percent of the gross receipts from the national forests other than receipts from sales of timber, the same to be apportioned so that each county shall receive 25 percent of such other gross receipts as are derived from national-forest land located therein;

(c) 6/10 of one percent of the adjusted cost, as determined in accordance with section 3 hereof, of all national-forest lands acquired by purchase, donation, and exchange in each State during the last preceding

ten fiscal years, the same to be apportioned so that each county shall receive 6/10 of one percent of the adjusted cost of said lands located therein.

SEC. 3. The Secretary of Agriculture shall for the purposes of this Act determine annually after the close of each fiscal year the adjusted cost by States and counties of national-forest lands acquired during the last preceding ten years by purchase, donation, and exchange. Such adjusted cost shall be the considerations paid for said lands during the last preceding fiscal year, plus the considerations paid for said lands in the second preceding fiscal year adjusted by a reduction of 1/10, plus the considerations paid for said lands in the third preceding fiscal year adjusted by a reduction of 2/10, and plus the total considerations in the fourth to the tenth preceding fiscal years adjusted in like manner by reductions increasing by 1/10 each year up to 9/10 in the tenth preceding fiscal year. The considerations hereunder shall include the fair value at date of acquisition of national-forest lands acquired by donation and exchange.

SEC. 4. Annually after the close of each fiscal year the Secretary of Agriculture shall furnish the Secretary of the Treasury, in such detail as may be required in carrying out the provisions of this Act, a statement showing the fair value of national-forest lands determined as herein provided, the gross receipts from sales of timber and all other gross receipts from the national forests, the adjusted cost of lands acquired for national forests in the last preceding ten fiscal years, and other related information, together with a calculation of the amounts due; and the Secretary of the Treasury is hereby authorized and directed to draw warrants in favor of the various States in the aggregate amounts due hereunder and to transmit the same to the various State Treasurers together with such information and directions as may be necessary for proper apportionment to the counties.

SEC. 5. The decision of the Secretary of Agriculture shall be final as to all questions of fact necessary for the purposes of this Act and shall be binding upon all the accounting officers of the government.

SEC. 6. The provision in the Act of May 23, 1908 (35 Stat. 260) authorizing the payment of twenty-five percentum of national-forest receipts to the States and Territories, and Section 13 of the Act of March 1, 1911 (36 Stat. 961), as amended by the Act of June 30, 1914 (38 Stat. 441), such provision and section being consolidated in Sec. 500, title 16, U.S.C., are hereby repealed.

SEC. 7. There is hereby authorized to be annually appropriated out of any money in the Treasury not otherwise appropriated, such sums as may be necessary in carrying out the provisions of this Act.

Proposed legislation, Property-Value Plan

A B I L L

To establish a new basis for determining the annual contributions to be made by the United States to the various States in which national-forest lands are located, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That when used in this Act--

(a) The term "acquired national-forest lands" means those lands acquired for national-forest purposes by purchase, donation, and exchange.

(b) The term "State" includes Alaska and Puerto Rico.

(c) The term "county" includes districts which may be established by the States to administer functions of local government in place of counties.

SEC. 2. That hereafter 5/10 of one percent of the basic value, determined in accordance with section 3 hereof, of national-forest lands shall be paid as soon as practicable after the close of each fiscal year by the Secretary of the Treasury to the State in which such lands are located and the total share for the benefit of each county shall be 5/10 of one percent of the aforesaid basic value of the national-forest land located therein; Provided, That such payments be distributed by the respective States to the counties for use in support of local governmental functions as their respective State legislatures may direct.

SEC. 3. For the purposes of this Act the Secretary of Agriculture is authorized and directed to determine annually the basic value of the national-forest land in each State by counties at the close of the preceding fiscal year in the following manner:

(a) For acquired national-forest land such basic value shall be determined by appraising such land and the natural resources thereon, such as timber and forage, at fair value but the value of waterpower and improvements shall not be included: Provided, That in making such appraisal the Secretary of Agriculture may take into account deficiencies in national-forest revenue due to granting free use, or use paid for at less than commercial rates, or to reservations from commercial utilization for higher public purposes.

(b) For all other national-forest land the basic value shall be determined by whichever of the following methods of appraisal gives the lower amount: (1) Appraisal in accordance with paragraph (a) of this section, or (2) such appraisal multiplied by a fraction, the numerator of which shall be fifty times the gross receipts in money from said national-forest land within the State determined as follows:

In 1937, gross receipts of the fiscal year 1937; in 1938, average annual gross receipts of the fiscal years 1937 and 1938; in 1939,

average annual gross receipts of the fiscal years 1937, 1938, and 1939; in 1940, average annual gross receipts of the fiscal years 1937, 1938, 1939, and 1940; and in 1941 and thereafter, the average annual gross receipts of the last preceding five fiscal years. The denominator of said fraction shall be the appraised value of all national-forest land in such State as determined in accordance with paragraph (a) of this section.

SEC. 4. Annually after the close of each fiscal year the Secretary of Agriculture shall furnish the Secretary of the Treasury, in such detail as may be required in carrying out the provisions of this Act, a statement of the basic values of all national-forest land and other related information; and the Secretary of the Treasury is hereby authorized and directed to draw warrants in favor of the various States in the aggregate amounts due hereunder, and to transmit the same to the various State Treasurers together with such information and directions as may be necessary for proper apportionment to the counties.

SEC. 5. The decision of the Secretary of Agriculture shall be final as to all questions of fact necessary for the purposes of this Act and shall be binding upon all the accounting officers of the government.

SEC. 6. The provision in the Act of May 23, 1908 (35 Stat. 260) authorizing the payment of twenty-five percentum of national-forest receipts to the States and Territories, and Section 13 of the Act of March 1, 1911 (36 Stat. 961), as amended by the Act of June 30, 1914 (38 Stat. 441), such provision and section being consolidated in Sec. 500, title 16, U.S.C., are hereby repealed.

SEC. 7. There is hereby authorized to be annually appropriated out of any money in the Treasury not otherwise appropriated, such sums as may be necessary in carrying out the provisions of this Act.